

State of Michigan
41-B Judicial District Court

Financial Report
with Supplemental Information
December 31, 2007

State of Michigan 4 I-B Judicial District Court

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Independent Auditor's Report

To the Judges
State of Michigan 41-B Judicial District Court

We have audited the accompanying financial statements of the governmental activities, the General Fund, and the fiduciary fund information of State of Michigan 41-B Judicial District Court, which collectively comprise the Court's basic financial statements, as of and for the year ended December 31, 2007. These financial statements are the responsibility of State of Michigan 41-B Judicial District Court's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the General Fund, and the fiduciary fund information of State of Michigan 41-B Judicial District Court and the respective changes in financial position thereof for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis identified in the table of contents is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

The required supplemental information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic statements of State of Michigan 41-B Judicial District Court. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Judges
State of Michigan 41-B Judicial District Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Court's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

June 23, 2008

State of Michigan 4 I-B Judicial District Court

Management's Discussion and Analysis

Our discussion and analysis of State of Michigan 4 I-B Judicial District Court's (the "Court") financial performance provides an overview of the Court's financial activities for the year ended December 31, 2007. Please read it in conjunction with the Court's financial statements.

The Court is a joint venture of the Charter Townships of Clinton and Harrison and the City of Mount Clemens. Its financial activities are comprised of two major functions - general operational activity and bond transactions. Operational activity is reported in the General Fund and bond activity is reported in a Fiduciary Fund.

Using this Annual Report

This annual report consists of three general sections - management's discussion and analysis (this section), the basic financial statements, and required and other supplemental information.

The basic financial statements consist of three financial statements and the notes. The governmental fund balance sheet/statement of net assets and the statement of governmental revenue, expenditures, and changes in fund balance/statement of activities include information about the Court's General Fund under the modified and full accrual method. These financial statements focus on the financial position of the Court at December 31, 2007 and provide a more detailed view of the activity and accountability of the Court's sources and uses of funds.

The Fiduciary Funds - statement of assets and liabilities includes information about the Court's bond money held at December 31, 2007. This amount is a liability of the Court as it is owed to defendants who have not yet appeared before the judge. Once the defendant has appeared, bond money can be applied to fines and costs.

The basic financial statement section also includes notes that help to explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required and other supplemental information that further explains and supports the information in the financial statements.

Condensed Financial Information

The table on the next page provides key financial information for the General Fund in a condensed format, in thousands of dollars.

State of Michigan 4 I-B Judicial District Court

Management's Discussion and Analysis (Continued)

	2007	2006
Assets	\$ 2,552	\$ 2,477
Liabilities		
Current	622	712
Long-term	-	133
Total liabilities	622	845
Net Assets		
Reserved for:		
Building construction	-	1,568
Debt payments	1,930	34
Total net assets	<u>\$ 1,930</u>	<u>\$ 1,602</u>
Revenue		
Fines and fees	\$ 3,458	\$ 1,689
Building fund contributions and fines	747	1,568
Other	284	99
Total revenue	4,489	3,356
Expenses		
Court services	3,464	1,754
Debt service	697	-
Total expenses	4,161	1,754
Change in Net Assets	<u>\$ 328</u>	<u>\$ 1,602</u>

The Court as a Whole

- This is the Court's first full reporting period as a separate entity. The last audit report period was for the six-month period July 1, 2006 to December 31, 2006. Therefore, the revenue and expense line items with prior year information is not an equal time comparison with the current reporting period.
- The construction of the new court building was completed during 2007 and the court employees from Clinton Township and Mount Clemens moved into the new building on January 11, 2008. This capital project was funded with a \$13,500,000 bond issue to be repaid over 25 years. The Court will pay the biannual bond payments from operational funds; if payment becomes impossible in any one year, the funding units will pay the difference on a pro rata basis. Once the debt is paid off in 2031, ownership will be shared by the three funding units.

State of Michigan 41-B Judicial District Court

Management's Discussion and Analysis (Continued)

- The major source of revenue was fines and fees revenue from the three funding units which totaled \$3,457,800 and represents 77 percent of total revenue. The total collected in fines and fees was down 10 percent from the adjusted budget.
- The Court has experienced significant changes with the merging of the Mount Clemens and Clinton Township Court personnel. Before the merger, the courts operated separately, resulting in many differences such as dissimilar pension plans, varied employee benefits, and even different working hours. Administration and union representatives have spent many hours negotiating these differences in order to unify the Court. The result has been a more efficient and congruent 41-B Judicial District Court with all employees working together at one location.
- Wages continue to be a significant cost for the Court, representing 70 percent of the Court's total expenditures. The Court continues to streamline operations through various means, including attrition to reach its optimal staffing level and other cost saving measures.
- Under this new joint venture, the Court Management Council, comprised of representatives from Clinton Township, Mount Clemens, and Harrison Township, has a common fund agreement. This agreement states that any shortfall or excess be divided on a caseload average pro rata basis between the three funding units based on the annual summary calculation of the prior year. The annual summary agreement calculation for 2007 was an excess of \$228,668 which the Court Management Council chose to not distribute to the funding units. They instead decided to retain the excess in order to cover possible unexpected costs which may arise in the first year of maintaining the new building.

The Court Fund

Our analysis of the Court's major fund (the General Fund) is included on the basic financial statements. The General Fund budget is prepared by the Chief Judge and approved by the three councils of the funding units.

As the financial statements show, fund balance was increased by \$327,458, which is included in the amount reserved for the payment of bonds.

Court Budgetary Highlights

The Court continues to implement cost-saving strategies to minimize expenditures. As a result, the Court was significantly under budget across many line items. The Court held positions vacant as employees resigned or retired, resulting in savings in wages and applicable benefits. Contractual and professional services were monitored and minimized whenever possible. In addition, the Court analyzed the revenue collection process and began an aggressive collections program in October 2006, which minimized the reduction in revenues.

State of Michigan 4 I-B Judicial District Court

Management's Discussion and Analysis (Continued)

Contacting Court Management

This financial report is intended solely to provide our funding units and citizens a general overview of the Court's finances and to show the Court's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Court's administration.

State of Michigan 4 I-B Judicial District Court

Governmental Fund Balance Sheet/Statement of Net Assets December 31, 2007

	General Fund - Modified and Full Accrual Basis
Assets	
Cash and cash equivalents (Note 2)	\$ 2,517,781
Accounts receivable	6,740
Prepaid expenses and other assets	<u>27,908</u>
Total assets	2,552,429
Liabilities	
Accounts payable	283,842
Due to local governmental units:	
Charter Township of Clinton	20,163
City of Mount Clemens	30,631
County of Macomb	1,429
State of Michigan	73,366
Other accrued liabilities	43,847
Compensated absences due within one year	68,618
Compensated absences due in more than one year	<u>100,851</u>
Total liabilities	<u>622,747</u>
Net Assets - Restricted for debt payments	<u>1,929,682</u>
Total net assets	<u><u>\$ 1,929,682</u></u>

State of Michigan 4 I-B Judicial District Court

Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended December 31, 2007

	General Fund - Modified and Full Accrual Basis
Revenue	
Fines and fees collected from within:	
Charter Township of Clinton	\$ 1,901,790
Charter Township of Harrison	691,560
City of Mount Clemens	864,450
	<hr/>
Total fines and fees revenue	3,457,800
Building fund fines	747,334
Interest and dividends	90,487
State reimbursement - Judges' salaries	137,172
Other revenue	56,057
	<hr/>
Total revenue	4,488,850
Expenditures	
Current:	
Salaries and wages	1,866,017
Employee benefits	991,505
Contractual services	206,436
Professional services	173,110
Insurance	48,441
Printing, postage, and office supplies	109,487
Equipment services, leases, and maintenance	16,651
Travel, education, and training	17,382
Other expenditures	29,986
Jury and witness fees	5,000
Debt service (Note 8):	
Principle retirement	50,000
Interest and fiscal charges	647,377
	<hr/>
Total expenditures	4,161,392
Excess of Revenue Over Expenditures	327,458
Fund Balance/Net Assets - Beginning of year	<hr/> 1,602,224
Fund Balance/Net Assets - End of year	<hr/> \$ 1,929,682

State of Michigan 4 I-B Judicial District Court

Fiduciary Funds Statement of Assets and Liabilities December 31, 2007

	Agency Funds - Bond
	<hr/>
Assets - Cash and cash equivalents (Note 2)	\$ 336,969
	<hr/>
Liabilities - Bonds payable	\$ 336,969
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State of Michigan 41-B Judicial District Court

Notes to Financial Statements December 31, 2007

Note 1 - Summary of Significant Accounting Policies

State of Michigan 41-B Judicial District Court (the "Court") became an independent entity as of July 1, 2006. The Court serves the City of Mount Clemens and the Charter Townships of Clinton and Harrison (the "Local Units"), which are members of the Court. The Court oversees and processes items relating to traffic violations, criminal and civil infractions, landlord tenant cases, and small claims filings. It also provides probation oversight and related services.

The accounting policies of State of Michigan 41-B Judicial District Court conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Court:

Reporting Entity

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Court's basic financial statements include both the Court's full accrual financial statements and modified accrual financial statements. Because of the nature of the Court's operations, there are no differences between the methods. Nonetheless, the methods are described below for general information.

Full Accrual Financial Statements

The full accrual financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting, which is described below.

Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. There are no adjustments necessary to convert the Court to the full accrual basis of accounting.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the full accrual financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Court has elected not to follow public sector standards issued after November 30, 1989 for its full accrual activities.

State of Michigan 4 I-B Judicial District Court

Notes to the Financial Statements December 31, 2007

Note I - Summary of Significant Accounting Policies (Continued)

Modified Accrual Financial Statements

The Court's modified accrual financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which is described below.

Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to finance expenditures of the fiscal period. For this purpose, the Court considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Court.

The accounts of the Court are organized on the basis of funds, each of which is considered a separate accounting entity. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad categories as follows:

Governmental Fund

General Fund - The General Fund contains the records of the ordinary activities of the Court that are not accounted for in another fund. The General Fund includes the general operating expenditures of the Court, which consist mainly of salaries and fringe benefits for Court employees. Revenue is derived primarily from the Court's share of fines and costs associated with the traffic and criminal divisions, filing fees assessed for civil and small claim filings, and probationary fees.

State of Michigan 4 I-B Judicial District Court

Notes to the Financial Statements December 31, 2007

Note I - Summary of Significant Accounting Policies (Continued)

Fiduciary Funds

Agency Funds - Agency Funds are used to account for assets held by the Court as an agent for individuals, organizations, other governments, or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The Court uses the following Agency Fund:

- **Bond Fund** - This fund receives and holds bond monies from defendants as a promise to appear on an appointed court date. After the court date, the monies are applied to fines and costs, bond costs, forfeitures, restitution payments, and refunds, as appropriate.

Financial Statement Amounts

Cash and Cash Equivalents - The Court has defined cash and cash equivalents to include cash on hand and all highly liquid investments purchased with an original maturity of three months or less when acquired.

Compensated Absences (Vacation and Sick Leave) - It is the Court's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. The Court charges the local governmental units for the sick and vacation pay when the expense is incurred in both the modified and full accrual financial statements. For the purpose of the modified accrual statements, the revenue received from the local governmental units is deferred until the expense is paid to employees.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

State of Michigan 4 I-B Judicial District Court

Notes to the Financial Statements December 31, 2007

Note 2 - Cash and Cash Equivalents

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Court has designated four banks for the deposit of its funds. The Court has adopted an investment policy in accordance with Public Act 196 of 1997 and the Court's deposits and investment policies are in accordance with statutory authority.

The Court's cash and investments are subject to custodial credit risk of bank deposits, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Court's deposits may not be returned to it. The Court's policy for custodial credit risk states that the Court will minimize credit risk by limiting investments to the safest types of securities and diversifying the portfolio so that potential losses on individual securities would be minimized. At December 31, 2007, the Court had approximately \$2,536,000 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Court believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Court evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

State of Michigan 41-B Judicial District Court

Notes to the Financial Statements December 31, 2007

Note 3 - Budget Information

The annual budget is prepared by the Chief Judge of the Court and is submitted to the 41-B District Court Management Council for review and approval. Upon approval by the Court Management Council, the budget is submitted to the local units for approval. An affirmative majority vote by the local units is required to adopt the budget. The amount of encumbrances outstanding at December 31, 2007 has not been calculated. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget statement (budgetary comparison schedule - General Fund) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on a fund basis. A comparison of actual results of operations to the General Fund budget as adopted by the local units is included in the required supplemental information. This comparison includes expenditure budget overruns.

Note 4 - Allocation to Local Units

The 41-B Judicial District Court judges and council members of the 41-B District Court Management Council have instructed that the expenses of the Court be divided among the three district control units in proportion to the volume of cases attributable to each district control unit. At the discretion of the district control units, fines and fees collected from within the local units are distributable to the local units net of their allocation of the Court's expenditures.

Note 5 - Postemployment Benefits

The Court provides healthcare benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently 17 court retirees are eligible. The Court includes pre-Medicare retirees and their spouses in the insured healthcare plan. Contributions by the participants range from 0 percent to 75 percent and are dependent on the number of years of service to the Court prior to retirement. The Court purchases supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due. For the year ended December 31, 2007, the Court incurred approximately \$204,000.

State of Michigan 41-B Judicial District Court

Notes to the Financial Statements December 31, 2007

Note 5 - Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending December 31, 2009.

Note 6 - Risk Management

The Court is exposed to various risks of loss pertaining to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Court has purchased commercial insurance for these claims.

Note 7 - Defined Benefit Pension Plan

Plan Description - The Court participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute and maintain Michigan Municipal Employees' Retirement System for these employees was established by negotiation with the Court employees' collective bargaining unit.

Annual Pension Cost - For the year ended December 31, 2007, the Court's annual pension cost totaled \$177,156, which was equal to the Court's required actual contribution. The annual required contribution was determined as part of an actuarial calculation dated December 31, 2006 and amended on November 31, 2007.

State of Michigan 4 I-B Judicial District Court

Notes to the Financial Statements December 31, 2007

Note 7 - Defined Benefit Pension Plan (continued)

Three-year trend information is not available for pension cost and funding progress; therefore, only current year information has been presented.

	2007
Annual pension cost (APC)	\$ 177,156
Percentage of APC contributed	3%
Net pension obligation	\$ -
	Actuarial Valuation as of December 31, 2006
Actuarial value of assets	\$ 3,478,520
Actuarial accrued liability	\$ 3,888,860
Unfunded AAL (UAAL)	\$ 410,340
Funded ratio	89%
Covered payroll	\$ 732,750
UAAL as a percentage of covered payroll	56%

State of Michigan 4 I-B Judicial District Court

Notes to the Financial Statements December 31, 2007

Note 8 - Commitments

The Charter Township of Clinton issued \$13,500,000 of General Obligation Limited Tax Capital Improvement Bonds on behalf of the Court for the construction of a new court building. The building and related debt have been recorded by the district control units, which jointly own the building. It is intended that remaining debt service obligations for these bonds will be paid by the Court from its revenues as follows:

	Principal	Interest	Total
2008	\$ 200,000	\$ 580,200	\$ 780,200
2009	200,000	572,200	772,200
2010	250,000	563,200	813,200
2011	250,000	553,200	803,200
2012	250,000	543,200	793,200
2013-2017	1,700,000	2,531,000	4,231,000
2018-2022	2,800,000	2,055,050	4,855,050
2023-2027	3,900,000	1,332,550	5,232,550
2028-2032	3,900,000	357,750	4,257,750
Total	<u>\$ 13,450,000</u>	<u>\$ 9,088,350</u>	<u>\$ 22,538,350</u>

Note 9 - Litigation

The Court is named a party to a number of lawsuits in the normal course of Court operations. In the opinion of management, the resolution of these lawsuits will not have a material adverse effect on the Court's financial position or results of operations.

Required Supplemental Information

State of Michigan 4 I-B Judicial District Court

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2007

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variances with Amended Budget
Revenue				
Fines and fees	\$ 4,173,000	\$ 3,894,089	\$ 3,498,063	\$ (396,026)
Building fund fines	800,000	800,000	747,334	(52,666)
Probation, interest, and other revenue	35,000	160,911	243,453	82,542
Total revenue	5,008,000	4,855,000	4,488,850	(366,150)
Expenditures				
Salaries and wages	2,154,443	2,151,843	1,866,017	285,826
Bond payments	738,000	698,000	697,377	623
Employee benefits	1,167,333	1,098,333	991,505	106,828
Contractual services	215,000	215,000	206,436	8,564
Professional services	140,000	177,500	173,110	4,390
Insurance	40,000	48,500	48,441	59
Printing, postage, and office supplies	132,600	132,600	109,487	23,113
Equipment services, leases, and maintenance	80,529	30,529	16,651	13,878
Travel, education, and training	36,000	36,000	17,382	18,618
Other expenditures	78,140	50,740	29,986	20,754
Jail, jury, and witness fees	20,000	10,000	5,000	5,000
Total expenditures	4,802,045	4,649,045	4,161,392	487,653
Excess of Revenue Over Expenditures	\$ 205,955	\$ 205,955	\$ 327,458	\$ 121,503

Other Supplemental Information

State of Michigan 4 I-B Judicial District Court

Other Supplemental Information Schedule of Net Asset Restrictions - General Fund Year Ended December 31, 2007

Net Asset Restriction for Debt Service

Beginning net assets	\$ 1,602,224
Excess of revenue over expenditures	<u>327,458</u>
Ending debt payments fund balance	<u><u>\$ 1,929,682</u></u>

June 23, 2008

To the Honorable Judges of the State of Michigan
State of Michigan 41-B Judicial District Court

We have audited the financial statements of the State of Michigan 41-B Judicial District Court (the "Court") for the year ended December 31, 2007 and have issued our report thereon dated June 23, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 18, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Court. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on May 5, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the State of Michigan 41-B Judicial District Court are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007.

We noted no transactions entered into by the organization during the year for which there is a lack of authoritative guidance or consensus, nor were there any significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The Court did not have any significant accounting estimates affecting the financial statements at December 31, 2007.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure describing postemployment benefits.

The disclosure of postemployment benefits in Note 5 to the financial statements provides detail describing healthcare benefits available to full-time court employees upon retirement, the current costs incurred to pay for those benefits, and a description of the upcoming reporting changes that will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employees rather than at the time premiums are paid.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that the effect is immaterial to the financial statements taken as a whole.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated June 23, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the organization, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the organization's auditors.

Other Information in Documents Containing Audited Financial Statements

Our responsibility relates to the organization's financial statements and other information as identified in the auditor's report. We have no responsibility for any other information that may be included in documents containing those audited statements. We do not have an obligation to perform any procedures to corroborate other information contained in these documents. We read management's discussion and analysis and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

The Following Items are Other Items We Feel Warrant Your Consideration

Retiree Health Care

As you are aware, the Court provides postemployment benefits for eligible employees that are funded currently from the General Fund. For the year ended December 31, 2007, the cost of these benefits amounted to approximately \$204,000.

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

The promise to provide healthcare to retirees is very similar to the promise to provide an annual pension check. Similar to the current accounting for the pension systems, the new pronouncement will require the Court to obtain an actuarial valuation of the obligation to provide retiree healthcare benefits. In addition, the Court’s funding status or the progress it has made in accumulating assets to pay for this liability, will be disclosed in the financial statements. Lastly, the Court will be required to make an annual contribution equal to the amount that the actuary deems necessary to fund the liability. The changes required under GASB Statement No. 45 will be effective in 2009. We would be happy to assist the Court in further understanding the provisions of GASB Statement No. 45.

Bank Reconciliations

The bank reconciliation process is the Court's main control over cash. Bank reconciliations are currently being prepared by the finance director; however, reconciliations are not reviewed. We recommend that bank reconciliations be reviewed upon completion by the finance director.

Public Act 266

The State of Michigan Public Act 266 requires local units that use credit cards to adopt a credit card policy. While the Court has procedures in place to control the use of credit and debit cards, the Court should formalize these procedures in a written policy.

Documentation

Due to personnel changes that took place in the current year, there were instances where calculations and analysis supporting financial data could not be located. Documentation supporting financial calculations and analysis should be retained whenever possible.

Sign-offs

The audit team noted monthly transmittal documents that did not contain a sign-off documenting a review. Requiring date and initial sign-off on documents will help to ensure accountability and timeliness in the review of financial data.

To the Honorable Judges
of the State of Michigan
State of Michigan 41-B Judicial District Court

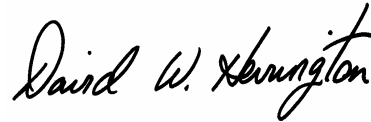
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June 23, 2008

This communication is intended solely for the information and use of management of the State of Michigan 41-B Judicial District Court and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, reading "David W. Herrington". The signature is written in a cursive, flowing style.

David W. Herrington

A handwritten signature in black ink, reading "Dana M. Coomes". The signature is written in a cursive, flowing style.

Dana M. Coomes

To the Honorable Judges
of the State of Michigan
State of Michigan 41-B Judicial District Court

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June 23, 2008

Client: **State of Michigan 41-B Judicial
District Court**
Y/E: **12/31/2007**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenditures
KNOWN MISSTATEMENTS:								
A1	Costs incurred during the year ended 12/31/06							
	were recorded during the year ended 12/31/07					\$ (44,009)		\$ (44,009)
A2								
ESTIMATE ADJUSTMENTS:								
B1	None							
B2								
IMPLIED ADJUSTMENTS:								
C1	None							
C2								
		\$ -	\$ -	\$ -	\$ -	-	\$ -	-
	Combined effect	\$ -	\$ -	\$ -	\$ -	\$ (44,009)	\$ -	\$ (44,009)